

DRAFT DDI BRIEFING FOR
NAHON SUBCOMMITTEE

THE SOVIET ECONOMY

- I. Khrushchev today must find little to please him when he surveys the state of the Soviet economy.
 - A. The economy has in effect had a threefold assignment: supporting an aggressive foreign policy, including the arms and space races; catching up with the US in industrial output; and raising the level of consumption of the Soviet people. The growth rate of the economy, however, has not measured up to these tasks.
 1. The developing difficulties of the economy now have been brought to a head by the disastrous harvest of 1963.
 - B. The first four years of Khrushchev's leadership, through 1959, were a great success. The New Lands and corn programs gave agriculture its first real lift since 1937.
 1. Economic growth in this period was made easier by a reduction in military spending and in armed forces manpower in 1956 and 1957.
 2. This was the period when Khrushchev began making those promises about catching up with the United States in meat, milk, consumer goods and industrial production.

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C. Since 1959, however, the economy has slowed down significantly. Difficulties appeared not only in agriculture, but in all parts of the economy.

1. Industrial growth slowed down.
2. More ominously for Soviet prospects, investment growth began to slow drastically.

II. We think a large part of the blame for the slowdown falls on defense spending.

((Chart 1: Estimated and Announced Defense Expenditures, 1955-1963))

A. The first chart shows the trend in defense spending since 1955. The upper line is our estimate of actual defense expenditures.

1. After the decline in 1956 and 1957, spending started upward again in 1958, as missile systems emerged from the R&D phase into production and deployment.

2. We calculate that between 1958 and 1963, Soviet defense spending increased by more than one third.

B. The lower line on the chart is the defense budget announced by the Soviets.

1. The difference between the two lines is partly a question of coverage. The announced budget, for example, does not include atomic energy, or research and development.
2. There is also, however, an element of concealment. We estimate that total spending

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for military purposes began rising in 1958, while the announced budget showed no appreciable increase until 1961.

((Chart 2: Estimated Defense Spending by Type, 1956-1963))

C. The rise in defense spending came mainly in expenditures for development, procurement, and operation of equipment. The upper band on this chart shows expenditures which were primarily for personnel. You can see that they declined until 1961, and since then have remained nearly constant.

1. Conversely, the expenditures for procurement, R&D, and operations and maintenance have risen much faster since 1958 than the total defense spending.

D. The Soviet economic problem, however, lies less with the total defense spending than with the defense drain on the key critical resources of high-quality materials and manpower. Our estimates of the ruble cost of defense do not adequately reflect this factor of the quality of resources. A homely example may illustrate this point:

1. Military and civilian activities use many of the same types of trucks. When the finished trucks are inspected, those without defects go to the military. The civilian economy gets the others.

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2. The same rule applies to the top levels in manpower--the scientists, the engineers and the technicians. Defense has first claim.

E. This military priority on critical resources stems particularly from the changing "mix" in military procurement which has accompanied the development of advanced weapons systems.

((Chart 3: Advanced Weapons Procurement))

1. The procurement of conventional military hardware declined sharply from 1955 through 1958, and has remained constant since 1959.
2. The portion of total procurement devoted to missiles, nuclear warheads, and associated electronics, however, has risen constantly. From an insignificant share before 1955, the cost of advanced weapons has grown to two thirds of all procurement.
3. The rapid rise of these expensive programs accounts in part for recent shortcomings in industrial investment, especially in the chemical industry.
4. Defense and associated research also monopolize computers, hampering the program for modernization and automation.

((Chart 4: US-USSR Comparative Annual GNP Growth))

III. The cost of the defense establishment and the defense priority on investment and resources have had a marked effect on the growth rate of the Soviet economy.

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A. During the 1950's, Soviet GNP grew at a rate which fluctuated from year to year but averaged an annual six percent for the decade -- roughly twice the US growth rate.

1. In the 1960's, however, the rate of growth has fallen off. For the past two years, it has been less than 2.5 percent, and below the rate in the United States.

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B. Much of the wide fluctuation in the annual rates of growth in the USSR reflects the fortunes of Soviet agriculture.

1. For instance, 1956, 1958, and 1961 were years of good harvests.
2. But 1962 was a bad year, and 1963 was a near disaster.
3. Thus, if the weather is average next year, the harvest might be expected to put the GNP figure back to a growth of 4 to 5 percent.

C. All of the slowdown was not accounted for by agriculture, of course. Investment and industry also slowed down.

((Chart 5: Growth Rate of Investment and Defense))

1. In this chart, we can see the surge of new Fixed Investment growth in 1956 to 1959.
2. Then the resumption of growth in defense spending, in 1958 and 1959, was followed by a slowdown in investment to about 4 to 5 percent in 1961 to 1963. Even industrial investment, which had been growing at about 12 percent, fell off to about 4 to 5 percent at this time.

((Chart 6: Total, Civilian, and Military Industrial Production))

D. We can see the same competition between civilian and military users within industrial production.

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1. Once again, this chart shows the civilian share of production growing rapidly in the early years, and slowing down in the later years.
2. The pattern of production of equipment--including arms--for the military is just the reverse.
3. Meanwhile, the growth rate for total industrial production has dropped off from 8 to 9 percent to a current rate of 6 to 7 percent.

V.. In spite of recent difficulties, the Soviet Union has created a formidable defense establishment. This has been achieved by decades of priorities and concentration, first on industrial development, more recently on advanced weapons development.

((Chart 7: Comparative Total US and Soviet GNP and Components))

A. This chart of the end uses of total output in the Soviet Union and the United States shows the pattern of how the Soviets concentrate their resources.

1. Total Soviet GNP in 1962 was less than half that of the United States.
2. Soviet consumption was little more than one third of US consumption--even less on a per capita basis.
3. Total Soviet investment, on the other hand, was fairly close to the US in absolute terms. Furthermore, in comparison to the corresponding figures in the United States, investment in industry was much larger both in percent and in absolute terms.

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Other than industry, the rest of total investment goes into such items as highways or commercial and housing construction, in which the Soviets are considerably less interested than is the West.

4. Education, on the other hand, is something the Soviets look upon as an investment in productive labor. Hence the Soviet educational effort, out of half as large a GNP, amounts to more than two thirds of ours.
5. Finally, the Soviet defense effort--measured in US prices and costs--was four fifths that of the United States. I must add, however, that whether you calculate in rubles, or in equivalent dollar figures, there are always factors which tend to make these comparisons misleading to some degree.

VI. The end uses shown on the last chart do not include Soviet military and economic aid programs. In addition to helping its satellites, the Soviet Union has given economic aid to some 25 non-Communist underdeveloped countries, and military assistance on liberal credit terms to 13.

- A. From 1954 through 1959, new extensions of economic aid to non-Communist countries tended to increase each year, exceeding \$800 million in 1959. The USSR seems to have tightened its criteria for such aid in 1960 and 1961.

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1. By 1962, the figure was down to a low of \$77 million. We estimate that last year it amounted to about \$200 million.
 2. During the past two years new commitments for Soviet military assistance outside the bloc have also been cut back. Deliveries, however, are maintaining a high pace, and new requests are being met.
- B. Despite this recent retrenchment in Soviet economic and military aid, the drawings against past commitments are increasing.
1. Total economic and military commitments to date outside the bloc are about \$6.1 Billion.
 - a) Of this, more than \$2 Billion in economic aid remains to be drawn.
 - b) There is also ~~as~~ much as \$1 Billion outstanding in military commitments, but this probably will be covered largely by delivery of equipment already in stock, posing no new economic burden.
- C. Soviet economic aid to Communist countries--including Cuba and Yugoslavia--has amounted to more than \$4.6 Billion over the past decade. It fluctuates widely from year to year.
1. The value of Soviet military assistance to Communist countries is difficult to measure on the basis of available information. It includes an estimated \$500 million for Cuba in the past four years.

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D. In spite of the general economic slowdown, the reduced level of new foreign aid commitments probably does not stem from any inability to spare the moderate amounts involved.

1. Instead, we think that past experience now has led the Kremlin to take a less enthusiastic view of whether generosity to underdeveloped countries will pay off in political gains.
2. There are also, of course, political and psychological inhibitions against granting large-scale foreign assistance at a time when some domestic programs are being curtailed.

((Chart 8: US and Soviet Population and Employment))

VII. Before I turn to the specific subject of agriculture, I want to mention the related factors of assignment of manpower, and the Soviet diet.

- A. About 42 percent of the Soviet labor force is engaged in agriculture, but these 49 million people produce only about three quarters as much as the 6 million Americans engaged in agriculture.
- B. Soviet industry and US industry each employ just under a quarter of the labor force, but in the Soviet case this means half again as many workers for a much smaller output.
- C. The sectors squeezed in the USSR are trade and services.

((Chart 9: Composition of US and Soviet Diets.))

VIII. The composition of the Soviet diet is also significant

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- A. The average Russian gets almost as many calories as the average American--considerably more if you include the Soviet consumption of alcoholic beverages, which is about three times as high as in the United States.
1. Only about a quarter of the Soviet diet, however, consists of the high-quality foods--livestock products, vegetables, fruit and the like.
 2. Grains and potatoes make up about 70 percent the Soviet diet, compared to about 30 percent of the American.
- B. A diet which is so heavily concentrated on grain magnifies the effects of a short grain crop.
1. There is less feed grain for livestock. We already have considerable evidence of distress slaughtering.
 2. Customers are being limited to two loaves of bread per purchase, flour is disappearing from the stores, and factory cafeterias are either reducing or eliminating the free bread usually served with meals. Brown bread is being substituted for white. (The higher milling rate of the brown bread means that more of the cereal grain is used in bread, and less is left for animal feeding.)

- IX. When the Communists first came to power in Russia, they inherited a generally favorable agricultural situation. Russian farms could produce enough food to leave a substantial surplus for export, paying for needed imports of machinery.

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A. That surplus is no more. In the rush to develop heavy industry, agriculture was neglected in the distribution of investment funds

((Chart 10: Total and Per Capita Agricultural Production))

- B. Khrushchev's New Lands, half in Siberia and half in Kazakhstan, boosted lagging food production temporarily in the mid-1950's.
1. In 1956, production was already some 30 percent above 1953; by 1958, it was 50 percent higher.
 2. As successive crops used up the original soil fertility and moisture of the new acreage, however, output fell off. Very little progress in total output was made from 1958 to 1962.
 3. The severe 1963 drought, not only in the New Lands but in the traditional farming areas, reduced total output below 1958, and per capita production below 1956.
- B. As a result, the Soviet Union has had to become an importer of grain. To date, nearly 10 million tons have been contracted for, to be delivered before July.
- C. Khrushchev has launched a massive development program for the chemical industry, in an effort to solve the long-run problem of food and fiber supply as well as to modernize industry.
1. The program calls for tripling output of

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2. The direct impact on the agricultural problem is to come from an increase in fertilizer production. The present 20-million-ton annual figure is to reach 70 to 80 million tons by 1970.
 3. Annual production of plastics is to rise from 600 thousand tons in 1963 to 3.5 to 4 million in 1970, and the present synthetic fiber output of 300,000 tons is supposed to be four to five times as great.
- D. If the program is carried out as planned, investment in the chemical industry will rise from 10 percent of industrial investment in 1963 to 18 percent in 1970.
1. Altogether Khrushchev wants 42 Billion rubles invested in the chemical program over the next seven years. At the official rate, this amounts to \$46 Billion. Frankly, we believe the program Khrushchev has outlined would call for a much greater investment than the equivalent of \$46 billion dollars.
 2. The Soviet Union has already been importing substantial quantities of chemical equipment. If Khrushchev's new goals are to be met, equipment imports from the West for the chemical program are going to have to amount to \$2 Billion or more---another substantial burden for gold stocks or export earnings.

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3. The domestic phase of the chemical program will

increase the competition for high-grade personnel and resources being monopolized by the defense and space programs.

4. If the Soviet Union is able to buy first-rate equipment in the West, embodying the latest chemicals technology, that will go a long way toward helping the Soviet Union to complete this program without cutting too deeply into its defense needs.

X.. The combined need for grain and equipment imports has created a serious payments problem for the Soviet Union.

((Chart 11: Orientation of Soviet Foreign Trade))

A. This chart shows that the largest part of Soviet trade is with the bloc. Trade with the industrial West has grown rapidly, however. This creates the payments problem, because the USSR has usually maintained an export surplus in over-all trade, but consistently runs a deficit in its trade with the West.

((Chart 12: Composition of Imports from the West))

B. As this chart indicates, the largest and most rapidly growing portion of Soviet imports from the industrial West consists of machinery and equipment. This portion is of key significance for developing new industries such as synthetic fibers. It is also the portion partly financed by Western medium-term credits over the last few years.

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((Chart 13: Soviet Exports to the West))

C. Soviet exports to the West have also grown rapidly, but not as fast as imports. There is reason to believe that exports will increase considerably less rapidly in the future.

1. Petroleum has been the most rapidly rising export, but has leveled off over the past two years.
2. Marketing difficulties and a slower growth of exportable surplus make it appear unlikely that there will be another boom in POL exports in the future.

D. Even if the Soviet Union has moderate success in restoring grain production, the rising grain deficit in the satellites makes it improbable that the export of grain to the free world will resume in the foreseeable future.

1. The remaining exports--mainly wood products, metals, ores, and furs--may grow, but do not offer the prospect of rapid expansion.

E. The failure to generate enough exports to the West to cover rising import needs thus means an increasing trade deficit with the West.

((Chart 14: Soviet Hard Currency Payments Deficit))

This deficit, together with shipping charges and hard currency payments to the rest of the world, added up to a hard currency deficit of nearly \$1 Billion

for the three years 1960 through 1962.

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B. The deficit has been covered partly by gold sales, and partly--starting in 1959--by medium-term credits from the West. The credits shown on the chart are annual credit drawings, net of repayment and interest.

1. New credits have amounted to about \$300 million a year since 1961, but net credit has declined because of rising repayments and interest.
2. If the Soviet Union should again get new credits of \$300 million in 1964, repayment and interest would absorb all but \$16 million.

C. The payments deficits for 1963 and 1964 will be much larger than in 1962 because of the grain purchases. These are going to have to be financed largely by gold sales.

((Chart 15: Gold Production, Sales, and Stocks))

XI. On this chart you can see the steady reduction of the Soviet gold reserve as a result of the hard currency deficits.

- A. Production has grown slowly, reaching a peak of possibly \$175 million in 1963. We have evidence that it will be very difficult for the Soviets to achieve any substantial further increase.
- B. Sales, on the other hand, together with domestic use of some \$40 million a year, have substantially exceeded production since 1955.
- C. As a result, the reserve stock has dropped from nearly \$3 Billion in 1956 to \$1.8 Billion. Payment for grain already on contract--not including any from the US,--will drop the gold stock to about \$1.3 Billion

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D. With exports growing so slowly, and with gold

stocks obviously approaching the minimum the Soviet Union must consider essential for emergencies, the only promising means of financing substantially larger imports of equipment is an expansion of credit, especially with longer repayment terms.

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THE ECONOMY OF THE SATELLITES

- I. The economic problems I have been reciting are not confined to the Soviet Union. Similar troubles have developed in all of the European satellites.
 - A. These countries have imitated the Soviet Union in stressing the rapid development of heavy industry with highly centralized planning.
 - B. Now they are plagued by the same basic weaknesses:
 - 1. A high cost of industrial growth;
 - 2. Glaring inefficiency in collective farming;
 - 3. Drabness and lack of variety in consumer goods; and
 - 4. A lack of flexibility to adapt to new technology and new types of products.
- II. Until 1959-1960, over-all growth in the European satellites was comparable to that of continental Western European countries. During the last three years, however, it has slowed down significantly in all of the satellites except Rumania.

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A. These over-all trends stem from a slowdown of industrial growth, and stagnation or even decline in agriculture.

(Chart, European Satellite Agriculture)

B. In agriculture, total production for all of the satellites now is no greater than it was in 1959, and very little higher than in the base period 1955 to 1958.

1. In 1962 and 1963, virtually all the satellites were below the production level of 1961. The two most advanced satellites, Czechoslovakia and East Germany, have the poorest performances.

(Chart, European Satellite Industry)

C. The combined rate of industrial growth for all of the European satellites has slowed down from about 9 percent a year in 1958 and 1959 to a growth rate of 4.5 percent in 1963.

1. This slowdown has been most pronounced in Poland and--again--in the two most advanced satellites, Czechoslovakia and East Germany.

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- D. The advanced satellites are revising their economic plans along the same lines as the Soviet Union--with emphasis on chemicals, and on quality of production.
1. This raises the possibility of new collisions between Soviet and satellite plans. The USSR, for example, plans to obtain one billion rubles worth of chemical equipment from the satellites. These countries, however, probably have their own plans for domestic use of all the chemical equipment they can produce.
 2. Like the Soviet Union, the satellites are also counting on importing extensively from the West and are trying to increase their exports to pay for it.
 3. The need to raise the quality of export production to a level which can be competitive in world markets is giving rise to many proposals for liberalizing the economy--for abandoning the Soviet model of a highly centralized economic administration. The Czechs are actively considering reforms. Hitherto among the best Stalinists politically, the Czechs appear as revisionists when it comes to economy.

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DRAFT DDI BRIEFING FOR
MAHON SUBCOMMITTEE

12 January 1964

COMMUNIST CHINA
AND THE SINO-SOVIET DISPUTE

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II. THE ECONOMY:

The information we have available paints a grim picture of the internal Chinese scene. Recovery from the recent years of economic disaster has been very slow, and the small gains are matched by growing problems.

A. The stagnant Chinese economy is not able at present to feed and clothe the population as well as it did in the 1950's.

1. Diplomats in Peiping report that the Chinese are worried over continuing population growth, in the absence of any prospect for a substantial production increase over the next few years. There is a serious effort to develop a birth control program.

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B. The grain harvest in 1963 was only mediocre, chiefly because of prolonged drought in the south and severe flooding in North China.

(Per Capita Grain Chart)

1. We estimate that 175 to 180 million tons of grain were produced in 1963. This compares with a harvest of 180 million tons in 1957, which was an average year.
2. This disparity is more drastic than it sounds. The population, now 718 million, has increased at a rate of approximately 13 million per year. Thus China probably will have a slightly smaller harvest, but some 77 million more people to feed, than in 1957.
3. Food imports will again be needed in 1964 to maintain present levels of consumption. These are already 10 to 15 percent below the level of 1957.
4. The regime's higher priority for agriculture is having little immediate impact. Any effective program for agricultural recovery will require significant investment and technical improvements over a long period.

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((Chart, Industrial Production))

C. Industry in China has given recent Western visitors an impression of great technical difficulties, wasted manpower, and much idle capacity.

1. Aerial photography shows most industry is producing at little better than 1957 levels.
2. The "Great Leap Forward" almost doubled Chinese industrial production in three years, but the entire gain was lost in the abrupt collapse. Since then, the index has barely moved upward.
3. Any further development of modern complex industry will require imported machinery and technology.

((Chart, Chinese Communist Foreign Trade))

D. Peiping's trade with the Soviet bloc dropped more than 65 percent between 1959 and 1962, from \$2.9 Billion to \$1.1 Billion. Last year it was down to about \$900 million. Trade with the Free World, mainly Chinese food imports, has exceeded trade with the bloc for the past three years.

1. Chinese shopping tours of European and Japanese markets have resulted in few purchases other than food grains.
2. The reluctance to buy reflects both the tight foreign exchange position and Chinese indecision on long-range planning goals.

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E. There has been little evidence of long-range planning recently.

1. The Third Five-Year Plan (1963-67) has been largely ignored in Peiping announcements.
2. There are three factors which complicate planning decisions:
 - a) Unquestioned priority is given to industries which support advanced weapons programs.
 - b) There has been no relief of the pressures on food supply generated by the population increase.
 - c) Peiping faces the difficulty of reviving a stagnant economy.

F. Little improvement is in sight for any sector of the economy.

1. In agriculture, China will have difficulty even in keeping up with population growth. A recurrence of the 1960/61 food crisis, when rations generally fell to semi-starvation levels, is entirely possible.
2. Grain purchases in the free world will almost certainly be necessary for many years.

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G. Economic distress is the cause of widespread political unrest and disaffection.

1. China's peasants are sullen and apathetic.

2. Those living in the cities seem to be better off than the peasants, but unemployment is a serious problem.

3. Young people are disappointed at the lack of job and study opportunities.

4. Discontent, however, has not reached a point which would pose a serious problem for the regime security forces. At present the population sees no hope or alternative, and is thus too apathetic to engage in anything like a mass uprising.

III. THE ARMED FORCES:

From 1950 to 1960 Communist China developed the largest ground force in the world, the fourth largest air force, and the fourth largest submarine fleet. However, the modernization of these forces has practically come to a halt since the withdrawal of Soviet technical assistance in mid-1960. This markedly reduces Peiping's ability to confront US forces in Asia, or even the Chinese Nationalist air force. Nevertheless, Peiping's capability for military action against its Asian neighbors remains high.

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- A. The ground forces number more than 2.7 million troops. These massive numbers are the main element of Peiping's military power.
 - 1. China's 162 combat divisions, however, are poorly equipped even by World War II standards.
- B. The air force has more than 1,900 jet fighters and about 325 light bombers. This is an impressive number, but all are obsolete.
 - 1. The most modern aircraft type Peiping has in any quantity is the MIG-19, and there probably are no more than 75 of these.
 - 2. The air force is not known to have any air-to-air missiles.
- C. China's navy is a weak link in the defense establishment. Its major vessels are four old Soviet-built destroyers, four fairly modern RIGA-class destroyer escorts built at Shanghai, and about 28 or 29 submarines.
 - 1. Of the subs, 21 are in the long-range "W" class, also built at Shanghai.

IV. THE ADVANCED WEAPONS PROGRAM:

Relying heavily on Soviet help, the Chinese embarked in the mid-1950s on an ambitious program

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to build their own nuclear weapons and guided missiles. Only slow progress has been made since June 1959, when Soviet assistance in the nuclear field apparently was cut off.

A. We have seen no indications that China has the capability to explode an atomic device in the immediate future.

(Advanced Weapons Map)

1. Construction is continuing at the two main atomic energy installations in China--a suspect gaseous diffusion plant at Lanchou and a suspect air-cooled reactor at Paotou.
2. The preponderance of evidence indicates that the gaseous diffusion plant is not in operation.
3. We cannot tell for sure if the air-cooled reactor is operating yet, but there are signs that it started recently.
4. Once the reactor starts, it would take at least two years to produce enough plutonium to build a test version of a nuclear device.
5. The gaseous diffusion plant would have to be at least doubled in size before

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it would have the enrichment capability needed to produce weapons grade U-235.

6. The latest available photography, taken in late September, showed the start of construction on what may be an additional separation section for this purpose.

Because of Chinese technical limitations, we expect it will be several years before Lanchou can achieve full-scale production of weapons material.

7. Our last National Intelligence Estimate on Chinese Communist advanced weapons, approved last July, did not preclude the testing of a Chinese nuclear device in 1963 , but considered early 1964 the earliest probable date. We feel that Peiping's continuing technological problems have very probably now pushed this date into late 1964 and perhaps even 1965.

B. Peiping is also making some progress in developing a missile capability.

1. A missile test range, built on the Soviet pattern in the remote northwest, has facilities for testing MRBM's and SAM's.

Several MRBM firings--one an apparent failure--are believed to have taken place since December 1961. Thus far, however, the Chinese have apparently not progressed far enough to initiate a systematic flight test program.

2. A missile research and development center suitable for the development of MRBM's is nearing completion near Peiping. We have evidence that rocket engines are being tested there.
3. Thus far, 14 surface-to-air missile sites have been detected in all of China--not a very impressive number.
 - a) Of these 14, only one, near Sian, is known to have all of the equipment necessary for firing a missile. Another site at the Shuangchentzu test range probably is also capable of firing missiles. All of the other sites contain little or no missile equipment.
 - b) The continuing construction of sites suggests that the Chinese are probably planning to produce their own SAM's.

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C. In spite of China's industrial backwardness, some progress must be expected in the advanced weapons field because it is being given first call on resources and because the Chinese do have some first-rate scientists.

1. Foreign Minister Chen I last October declared that the first nuclear test would take place "in several years without fail."
2. Chen I also admitted that it might take many years after the test to mass-produce nuclear weapons and acquire a sophisticated delivery system.
3. The Chinese are faced with enormous technological problems and high costs in carrying out this program. Pointing to these costs, the Soviets have commented that the Chinese may end up with neither an effective nuclear capability nor trousers.
4. Taking note of this Soviet comment, Chen I has said that the Chinese intended to manufacture modern weapons, even if they had to go without trousers.

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V. SINO-SOVIET DISPUTE:

The snide remarks the Soviets have made about Chinese economic efforts reflect the bitterness of their dispute. Peiping and Moscow no longer see eye to eye on anything except the final goal of bringing down the Free World, and are engaged in a head-on battle for leadership of the world Communist movement. Relations at the party, economic, military and even state level now are being held to a minimum of cool correctness.

A. Both sides apparently are operating on the assumption that the conflict between them will be a protracted one.

1. Neither seems to have enough confidence to force a final test of strength at this time.

2. Neither appears willing to accept responsibility for an act which might cost it the allegiance of those foreign Communist parties whose internal problems would be increased by such a development.

B. In addition to the festering ideological quarrel between the doctrinaire, militant

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Chinese and the more cautious and pragmatic Russians, there are divisive conflicts rooted in national interests going back to the Russian and Chinese Empires.

(Sino-Soviet Border Map)

1. The 4,000-mile Sino-Soviet border has become a hot frontier. Serious trouble began as early as 1960 and has continued.
2. In the spring of 1962, the USSR encouraged the flight of some 60,000 Chinese nationals--ethnic Kazakhs and Uighurs--from the region around Ili, in Sinkiang Province, into the Soviet Union and granted them asylum.
3. Peiping has since tightened security in China's far west by sending in additional frontier guards and troops, and is engaged in tightening border controls in Manchuria as well.
- 4.

C. Policy differences between Peiping and Moscow over Taiwan and India have been major friction points.

1. The Chinese have recently charged that the USSR failed to provide real support for China in the Straits crisis of 1958, and that during Peiping's border war with India in 1962 Moscow actually sided with the enemy. Continued Russian aid to New Delhi has kept Chinese resentment burning.

2. Russian cutbacks of technical and economic assistance to Chinese economic, military, and nuclear development, in an effort to force Peiping into line, have left deep wounds which are still open.

D. On balance the US and the Free World have thus far been gainers as a result of the Sino-Soviet conflict.

1. The emergence of two centers of doctrinal truth has shattered the myth of monolithic Communist solidarity, sown confusion among the faithful, and led to a further loosening of bloc ties.

a) Soviet policymakers are becoming less able to impose their will on unwilling Communist satraps without taking satellite interests into account. A recent and well-publicized example is the successful Rumanian resistance to Russian demands that Bucharest should tailor all its plans for economic development to fit the pattern of CEMA, the Communist equivalent of the OEEC in Western Europe.

2. Both the Soviet Union and China are now occupied--almost preoccupied--with their mutual hostility. This is levying demands on time, money and effort which five years ago went into other pursuits, and no end is in sight.

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